

ORIGINAL

original



4/30/12

Picacho Water Improvement Corporation (PWIC)

Response to Staff Report dated 4/26/2012

Emergency Rate Increase

Docket No. W-01774A-12-0089)

RECEIVED

2012 MAY -7 A 9:14

AT CORP. SECRETARY
DOCKET CONTROL

ACC Staff,

The PWIC respectfully submits the following comments related to the staff report of 4/26/2012:

STAFF'S RECOMMENDED EMERGENCY INTERIM RATES AND REVENUE CALCULATION (PAGES 7&8)

The ACC reduces the requested yearly increased annual increase from the requested \$83,308 to \$43,888 for the following reasons:

1. ACC excluded engineering costs related to the ADOT project.

PWIC Comment: Engineering costs are immediate and ongoing until ADOT's project is complete. These have already been incurred due to the need to respond to ADOT's lack of engineering expertise with small utilities. If the ADOT realignment is not done correctly PWIC will pay more in the long run for revisions. PWIC must have a professional capable of interfacing with ADOT engineers and, to date, ADOT has shown no willingness to compensate this. These costs are not avoidable. They are necessary and prudent.

2. ACC excluded costs to stabilize the storage tank, indicating that Staff did not see anything to indicate that a major failure was imminent or about to occur.

PWIC Comment: PWIC respectfully disagrees. Both Ed Geiser, the engineer who produced our CIP report and our current engineer, Bill Collings, see tank failure as a real possibility during ADOT construction. This is more likely given the compaction vibration from both ADOT and UP railroad construction. This is PWIC's only campus and tank failure would produce a prolonged water outage for Picacho. Further, our Board feels that sandwiched between I-10 and the Railroad is not a prudent placement for our Water Campus. This was being addressed in our CIP plan which has been delayed over 2 ½ years waiting for ADOT to determine I-10 location and establish mitigation. Storage tank stabilization cannot wait. It is prudent to await building a new tank as it may be best built at a different location.

3. ACC Staff removed the debt principal and interest payments because PWIC did not obtain Commission authorization for these loans and "accordingly, they are invalid."

Arizona Corporation Commission
DOCKETED

MAY 07 2012

DOCKETED BY *JM*

PWIC Comment: PWIC acknowledges our negligence on this point. We were not aware. We simply point out, first, that only \$25,000 of the loans are interest bearing. Second, PWIC expected timely reimbursement by ADOT for these monies. This, unexpectedly, did not occur. The direct relationship of the costs to ADOT activity is well documented in our Data Sets. Thirdly, at the time these loans were taken, PWIC never expected the need to repay them from rate increases. Again, they result from ADOT direct impacts and ADOT had represented that our water company would be "made whole".

THREE CRITERIA FOR DETERMINING WHETHER AN EMERGENCY CONDITION EXISTS

1. Condition One: Sudden Change brings hardship to the Company.

It is true that PWIC was encouraged to file for a rate increase beginning in Nov 2011. The bind PWIC experienced was not knowing what to ask for as we were in active dispute with ADOT over mitigation funding. We did not want to increase rates excessively. Had we received funding from ADOT, financial issues would have been more clear and a more orderly and lower permanent rate application could have been pursued. Also being considered was a petition for abandonment. PWIC believes that this sequence is understandable under the circumstances and respectful of ACC resources.

2. Condition two: The company is insolvent

It is somewhat humiliating to be found to meet the criteria to apply for Emergency rates on the basis of insolvency. Still we accept the truth of this situation. PWIC presented to ADOT in 2009 that it was financially incapable of dealing with so large a loss of ratepayers and the demands of preparing and interfacing with their preparations and construction. PWIC's was reassured that it would receive mitigation. ADOT proposed that mitigation come through the Environmental Assessment addressing NEPA statute and ADOT's mandate to make PWIC "whole". PWIC expected that both lost revenue from 42% loss of ratepayers and costs incurred would be repaid in full and thus the loans repaid. The debt incurred is all as a result of ADOT's activity and, therefore, we expected to be reimbursed. PWIC expected that part of mitigation would come in the form of capital improvements.

3. Condition Three: The Company's ability to maintain service pending a formal rate determination is in serious doubt.

The company is providing water. PWIC's costs are fixed. The loss of 42% of water users makes it impossible to make payroll.

Respectfully Submitted,

Hank Holmes
President PWIC

DOCKET NO. W-01774A-12-0089

Compliance with Procedural Order: Picacho Water Improvement Corporation

A. The Picacho Water Improvement Corporation (PWIC) certifies that:

PUBLIC NOTICE OF THE HEARING ON
PICACHO WATER IMPROVEMENT CORPORATION'S
APPLICATION FOR AN EMERGENCY RATE INCREASE
DOCKET NO. W-01774A-12-0089

1. A copy of the Public Notice ordered by the Procedural Hearing of 3/22/12 was mailed to each of our customers by first class U.S. Mail on 3/30/12.
 2. The Public Notice was posted at the Public Mail Boxes in Picacho on 3/30/12
 3. The mailing and posting were in accordance with the ordered format.
- B. PWIC further reports that its Annual Report has been filed with the Corporations Division.
- C. PWIC Board voted a Resolution to authorize Hank Holmes, President, to serve as it's representative in all matters related to PWIC's Emergency Rate Increase Application before the ACC on 3/26/12 and this was forwarded to docket Control on approximately 3/28/12

Picacho Water Improvement Corporation
6240 Monitor Street
PO Box 10
Picacho, AZ 85141

4/7/2012

Jeffrey M. Michlik
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Scott Hesla
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Docket No. W-01774A-12-0089
Response Second Set of Data Requests

Dear Sirs:

This response provides the information that you requested 3/27/2012.

Sincerely,

Hank Holmes
President PWIC
541-327-2676

3/7/2012

PWIC RESPONSE TO:

**ARIZONA CORPORATION COMMISSION
STAFF'S SECOND SET OF DATA REQUESTS TO
PICACHO WATER IMPROVEMENT CORPORATION
DOCKET NO. W-01774A-12-0089
March 24, 2012**

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

DS-2.1 Provide the in-service dates and describe with some specificity any system improvements/additions that have been completed since the Company's last rate application.

Answer: PWIC has had no system improvements since the last rate increase in 1987. We did have an addition to the system in 2001 with a mainline extension to a Subdivision that that was approved by Pinal County, the State of Arizona Department of Real Estate (Registration No: DM01-028226 Picacho Townsite), and the ADEQ (ADEQ File No: 20030142) and with right of way permit issued by Pinal County (Permit # 1295). This added 6 new meters to our system. The remainder of the lots remain undeveloped. The Developer paid all infrastructure expenses.

DS-2.2 Describe the system repairs/improvements that were funded using the \$50,000 debt resulting from the ADOT highway realignment.

Answer: This entails a long answer. There were no system repairs funded using the \$50,000 debt resulting from the ADOT highway alignment. These funds (and more) would have been used for PWIC's CIP, which had momentum and was the company's focus. We first had to await ADOT's choice among three I-10 placement options each requiring a different PWIC configuration and costs. In the last three years all available PWIC time and funds have been expended just to defend our franchise against potential insolvency and to have our claims handled lawfully. Instead of contributing toward the CIP, the money and energy that would have been used for improvements had to be used defensively.

Attachment A estimates very conservatively the \$50,000 in financial impact PWIC has represented. Some are hard and some are estimated and the reasoning might be questioned. In aggregate, they are substantial.

Attachment B is a short selection of PWIC's communications with ADOT over this issue which go back to 2007 meant the support our claim of impact and due diligence responding ADOT's impact. We anticipated significant financial impact on our

company, repeatedly asked for compensation to prepare for the impacts responsibly, and received no response. This fact is the reason for the \$50,000 indebtedness that PWIC has accumulated. More importantly, if ADOT did not have this project, PWIC would have a funded CIP completed or near completion driven partly by the need to be ready for ADOT's project. Instead, we have 42% less ratepayers both for revenue and borrowing ability and are bringing our emergency rate case to the ACC.

Attachment A details where the money went.

DS-2.3 Describe in detail the extra system maintenance and repair costs the Company has incurred as a result of ADOT construction activity.

Answer: Attachment D of the first data set response covers this.

DS-2.4 Describe the specific ADOT construction activities that caused the mainline breaks referenced in the Company's application.

Answer: These mainline breaks were caused by heavy equipment used by Demolition Crews hired by ADOT for Phase I of their four proposed demolition cycles. We expect similar vulnerability of our infrastructure with the following phases of demolition. It is too early to tell, but we may have better coordination with ADOT on the second Phase and, hopefully, less system damage and repair expenses.

PCIC EXPENSES RELATED TO ADOT PROJECT

(2007-4/1/2012)

DEMOLITION PHASE I EXPENSES: \$16,898

See attachment Attachment D (7 pages) from Set I

ENGINEERING EXPENSE: 5000

See attachment C(2 pages) from Set I

LEGAL EXPENSE: 5000

(Steve Wene attorney at law)

CAPITAL IMPROVEMENT PLAN LOSSES: 12,000

PWIC match of \$12,000 on \$48,000 WIFA grant for CIP plan. CIP completion delayed by two years and the value of the analysis diluted by ADOT need to decide on one of three options for Freeway placement. CIP forced to consider 3 options and inability to pursue funding for CIP losing opportunity for "shovel ready" project under the Stimulus Act. We estimate that rate increase through ACC would have occurred in 2009 at the latest. Estimated rate increase of 30% even without Capital Improvement expenses (Last Rate Increase 1987). (.30 (30%) increase in charges on \$65,000 average revenue = \$19,5000/ year x 3 years = \$58,500.

LOSS DUE TO RATE INCREASE DELAY: 58,000

(See Above)

TIME (MEETINGS, TRAVEL, PREPARATION) 5000

6 meetings with ADOT, endless exchange of E-mails, air travel, preparation and response. (Very conservative estimate).

TIME REQUIREMENTS RELATED TO ADOT 000

1000- 2000 hours (President, Operator, Financial Manager)

LOSS OF GRANTS AND LOANS: 000

(Unknown Value)

LOSS OF BORROWING POWER (42%): 000

The difference of 42% in ratepayers would weigh heavily on the ACC's award of rate increase. PWIC has no way of estimating this value. (Unknown Value)

LOSS OF REVENUES FROM RATEPAYER LOSS 000

PWIC has lost users from the first announcement of ADOT's intention to condemn the residences and businesses in the Realignment Footprint. This loss is ongoing. With Picacho's livability degraded due to loss of the Post Office, only businesses, and the 7.5 mile drive between the North and South sides of Picacho, further out-migration may occur.

TOTAL:

\$101,890

ATTACHMENT B

FINANCIAL IMPACT OF ADOT ON PWIC 2007 TO PRESENT

3/4/2012

BACKGROUND COMMUNICATION WITH ADOT:

NOTE: These are selected communications which are background for the claim that ADOT's I-10 Realignment had significant financial impact on PWIC. PWIC repeatedly expressed the financial impacts beginning in 2007. The ACC can readily understand this predicament of being in the middle of a CIP project and unable to proceed. It is doubtful that ODOT could understand, as they did not involve anyone with small water utility experience in their assessments. We asked in 2009 for ADOT to independently investigate their financial impact. They answered that ADOT had found no way to do this. Interestingly, this kind of evaluation was not performed in the EA either, yet as we understand it, this is the purpose of the EA.

1/7/09 (PWIC Formal request included in the Final Environmental Assessment Volume II)

"REQUESTED ACTIONS

1. We request that ADOT immediately conduct a study of the financial impact of the I-10 expansion on PWIC at ADOT's expense.
2. We ask that you provide financial help to us immediately for: a) engineering planning (The needs and cost go well beyond the scope of a current capital improvement grant from WIFA) and b) to compensate us for emergency application to the ACC for a rate increase. A rough estimate is \$50,000 (\$35,000 for engineering + \$15,000 for rate increase). We need these funds to investigate, in a timely manner, the options we may have to continue providing water services. Infrastructure changes, of course, take time to implement."

NO RESPONSE

4/13/09 (Impacts discussed at large ADOT-PWIC Meeting)

"The following are the definite impacts impacts of the ADOT realignment on PWIC: None of these can be avoided.

1. Loss of infrastructure under I-10 (Pipes, valves, meters, mainlines under I-10, etc)
2. Loss of 37 of 125 hookups (customers) with ongoing loss of revenue. Loss of revenue has already begun with customers moving from the acquisition area.
3. Loss of customer base to finance needed to qualify for WIFA funding necessary for any physical restructuring of our company.
4. Engineering and plan development necessary to meet project deadlines and have functioning system in place before construction starts.
5. Revenue lost by inability to apply to Arizona Corporation Commission for rate increase until impact of ADOT on needed capital improvements can be determined (average application requires \$20,000 and 18 months).
6. Greatly restricted access to water campus."

NO RESPONSE

1/14/10 (PWIC COMMUNICATION: Ongoing expression to ADOT of Financial Impacts)

1. "We are unclear, of course, what mitigation funds we will be found to deserve. More important immediately, when can we expect any funds at all? I understood that remediation could come in stages rather than necessarily in a lump sum. We have immediate needs and no funds to address them. We have had to delay application to the AZ Corporation Commission for needed rate increase and authorization for capital improvement for almost 3 years as ADOT plans have evolved. Our CIP studies began in August of 2006. The rate increase process takes a year at minimum and considerable expense (\$20,000). We have a leaking 250,000-gallon tank that could fail at any time leaving Picacho without water. This is a tiny utility which financially operates month to month. Our current financial position is (-\$40,000) in loans. All of this debt is related to the CIP studies. Until PWIC knows what funds are forthcoming and when, we cannot proceed with engineering planning for the most prudent configuration of our system. This planning would usually be done with the assistance of WIFA, a process that requires advance application. We are losing 35% of our users with the I-10 realignment. We cannot decide where to place our new tank until a settlement is reached. The "survival" placement is probably in its current location. This placement wastes the \$550,000 it will cost ADOT to replace the mainlines under the freeway. The prudent placement and planning is probably on the south side of I-10.

As I said at the meeting, I will pursue this week any options WIFA, the Corporation Commission, or Pinal County may have to bridge the gap. How long is the gap likely to last?"

NO RESPONSE

3/23/2010 ADOT description: "Telephone call between the Arizona Corporation Commission (ACC) and ADOT."

ADOT synopsis: "The ACC stated that if a utility is in financial difficulty, the ACC will work with that utility to maintain services to the area. If necessary, the ACC will appoint an interim manager for the utility."

THIS DISCUSSION NOT SHARED WITH PWIC

(Note: This contact seems to assume that PWIC is insolvent or will be through the impact of the ADOT project. It builds on ADOT's misinterpretation of the CIP, and again, no Consultant familiar with Small Water Utilities was involved. The summary is not in line with the facts that the ACC has appointed such interim management very rarely, in only extreme conditions, and only after providing substantial rate increases to assist the utility to survive. The "interim manager" would assume the ability to charge the same rates or higher, thus directly shifting the impact of ADOT's actions to the ratepayer. The "interim manager" would acquire the CC&N (franchise) at no cost and the PWIC franchise is extremely valuable to an investor because of its prime location at the junction of I-10 and Hwy 87 where part of the new I-10 design is done to facilitate development within our franchise. This contact points most clearly to ADOT's willingness to cause PWIC to be insolvent and to pass their impact on to the water user. It also does not analyze the value of the PWIC franchise and the options for sale that would be available without the loss of 42% of our revenue. The bottom line is that PWIC, like many AZ small utility companies struggles and, yet would remain in business with considerable potential for future success were it not for ADOT's impact.)

PWIC OPINION:

1. ADOT knew early on that its actions would cause PWIC to be insolvent if not mitigated.
2. ADOT relied for its position on PWIC's CIP without ever having a consultant with Small Utility Credentials to advise them.
3. PWIC was/ is a viable small water utility with similar problems that many small companies face.
4. ADOT was asked for appropriate funds to prepare for its impact.
5. ADOT knew that PWIC had a CIP in progress and that it could not proceed due to their project.
6. ADOT lead PWIC to believe that mitigation for impacts would be provided.
7. ADOT indicated that the EA was the mechanism for receiving mitigation.
8. ADOT never communicated with ADOT during the entire EA process despite repeated requests and consciously excluded our testimony in the Environmental Assessment that is required to receive FHWA funds for their project.
9. ADOT made the decision that PWIC was not a viable Water Utility. ADOT made a strategic decision not to assist the company in any way including refusing to investigate multiple valid and legal claims. This included skirting ADOT policy and NEPA mandates. ADOT did not "coordinate" with PWIC at all despite the favorable status accorded to Utilities under the law. By doing so, ADOT avoided the requirement for a more extensive environmental assessment and was able to claim FONSI and move forward to obtain Categorical Exclusion.
10. The FHWA, despite NEPA requirements colluded in this decision. The FHWA was involved at each step in the process.

EXPENSES:

OPERATOR: \$700/ month (40 years service)

FINANCIAL MANAGER: \$500/ month (40 years service)

BILLING AND COLLECTIONS: \$500/ month (4 years service)

PRESIDENT: Uncompensated (50 years of Holmes Presidency, H. Howard, David, Hank Holmes)

CORPORATE PROFIT 1962-PRESENT: NONE

Picacho Water Improvement Corporation
6240 Monitor Street
PO Box 10
Picacho, AZ 85141

4/1/2012

Jeffrey M. Michlik
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Scott Hesla
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Docket No. W-01774A-12-0089
Response First Set of Data Requests

Dear Sirs:

This response provides the information that you requested 3/22/2012. The Second Data Set will follow very shortly.

Sincerely,

Hank Holmes
President PWIC
541-327-2676

**ARIZONA CORPORATION COMMISSION
STAFF'S FIRST SET OF DATA REQUESTS TO
PICACHO WATER IMPROVEMENT CORPORATION
DOCKET NO. W-01774A-12-0089
March 22, 2012**

JMM 1-1 Refer to page nine of the Company's 2010 Annual Report filed with the Arizona Corporation Commission ('Commission'), and provide the Commission Decision No. that granted the Company authorization for each of the three outstanding loans.

Answer: There is no Commission Decision No. for the three loans because PWIC did not apply to the ACC to approve these loans. It was not with any intention to deceive, however. PWIC was simply unaware of the requirement to do so. The company received its last rate increase in 1987. We avoided going back for a later increase because our understanding was that the process required an attorney and was expensive (\$20,000 was the figure given us). PWIC had great difficulty attracting Board members for the two decades afterward and had very little sophistication as a company. We naively thought that we could rely on our accountant to monitor our compliance.

Attachment F is the loan document from Key Bank for the initial loan of \$25,000. This was initially a line of credit which was used for emergencies and repaid. We assumed indebtedness. Key Bank would not renew this PWIC loan without a guarantor and I agreed to be guarantor as the company could not afford to pay the loan off in one sum. I did this at a time when mitigation from ADOT was promised and seemed eminent. That has changed. The monthly payment, interest and principal is \$_____ x 12 = \$_____.

JMM 1-2 On page eleven of the Company's 2010 Annual Report filed with the Commission, the Company indicates that it has only 6 customers, all with two-inch meters. Please provide the following:

- a. Provide the number of customers for each meter size prior to disconnections due to the ADOT I-10 project.
- b. Provide the number of customers for each meter size subsequent to disconnections due to the ADOT I-10 project.

JMM 1-3 Regarding the Emergency rate application that the Company filed on March 15, 2012, please provide a response to each of the following:

- a. Explain how the Company calculated the \$24,000 in lost revenue.

Answer: Average revenue per year = \$65,000 X .42 (42% of ratepayers lost) = \$27,300

- b. Explain the basis of the \$15,000 emergency fund and show supporting calculations.

Answer:

- c. Explain how the \$20,000 cost for the temporary patch for the 200,000 storage tank was determined and provide all supporting documentation (e.g., written estimates).

Answer: Please see Attachment A which is a bid for placing a steel ring 2 feet high around the base of our 200,000 gal storage tank which is past its useful lifetime (50 years), is rusted out at the bottom and bulging, has been welded several times, could fail at any time, and would be very expensive to replace. See attached Picture labeled Attachment B. It is estimated that this will extend the life of the tank for 5-10 years. This time would allow PWIC to replace with loans or grants.

- d. Explain how the \$10,000 amount in engineering costs (Response to ADOT) was determined and provide all supporting documentation (e.g., estimates, invoices).

Answer: In August of 2011, PWIC hired a Water Engineer (Bill Collings) specifically for the purpose of representing us in interactions with ADOT which we could not avoid. Attachment C is our contract with his rates. ADOT pays us nothing for this impact. Since August, we have paid Mr. Collings _____ for a 6 month period. This expense is expected to continue at approximately the same level over the next two years during ADOT's demolition and construction. This is 4- 6 month periods or 4X \$ ____ = \$ _____

- e. Explain the basis for the \$15,000 increased cost for operations responding to I-10 construction was determined and provide all supporting documentation (e.g., estimates, invoices).

Answer: ADOT's project demands a lot of our operator beyond what he is paid for such as endless Blue Staking, fixing breaks (most expensive of which have been mailine breaks to our Asbestos Cement main-lines), locating valves and pipes, on site availability from 30-60 minutes distant depending on whether he is at home or out on his ranch. Major breaks entail hiring a contractor with the equipment and expertise to come from Tucson. Since ADOT began demolition preparations and demolition our costs have been \$16,897 (See Attachment D) of which we have received no reimbursement. We have hope that an agreement will be reached, however that does not look possible now. Attachment E is ADOT's current position expressed by Pete Mayne, and confirmed by an ADOT review of our claims. PWIC feels that \$15,000/ year for the period of construction is very conservative.

- f. Provide supporting calculations for the \$4,308 debt service on a \$25,000 loan.

Answer: See answer to JMM 1-1

Attachment A (4pages)

Fabtec, INC. | 1.
Proposal# 021312

FABTEC INC
32632 W SANTA CRUZ AVE
MARICOPA, AZ 85138
(520)568-2756
FAX (520)568-3672
wemakeithappen@fabtecusa.com

DATE: 03/13/2012
PROPOSAL# 021312

Dear Ed,

This proposal is for your approval on the scope of work as outlined in the following proposal sheets numbers 1 through 4.

This project does not include sales tax, Shipping and Fuel Sur-Charges where applicable.

Thank you for the opportunity to quote this project.

Sincerely,

Bruce A. Sweet
Sr. Project Manager / Sr. Project Engineer
Fabtec, INC

Accepted By: _____

Date: 03/13/2012 / 03/13/2012 / 03/13/2012

FABTEC, INC.
32632 W. Santa Cruz Ave.
Maricopa, AZ 85138

TERMS AND CONDITIONS
(PAGE 2 OF 4)

FABTEC, INC. is pleased to quote the following:

Scope of work:

- Seal and install steel skirt around lower 2ft of 32ft dia. tank.
- Dig out dirt to allow for welding approximately 1-1/4 in. outside body of tank.
- Pressure wash lower 2ft. of tank
- Apply epoxy sealant to lower portion of tank and up to 2ft. from the bottom. (This is a sealing compound.)
- Weld skirt full diameter of tank 2ft. high
- We will fill the void with non-shrink grout and cap top 2 in. with epoxy.

Total Cost: \$25,000

Notes: Terms are negotiable; call Hap at 520-705-2924. Materials will have to be paid upfront.
Progressive payments expected as work is completed.

Terms: This quote is good for 2 days. After that it is subject to a surcharge due to price changes in material.
40% due upon issuance of purchase order.
50% due prior to shipment
10% due net 30 days from delivery.
A 1.5% per month (18% annual rate) finance charge will be added to all past due Invoices.

FABTEC, INC.

32632 W. Santa Cruz Ave.
Maricopa, AZ 85138

TERMS AND CONDITIONS

(PAGE 3 OF 4)

A. SHIPPING TERMS: F.O.B.

1. Price(s) quoted do not include any taxes, crating charges, shipping charges, spare parts, drawings or manuals unless otherwise specified.
2. Shipment of equipment is as follows:
 - a. Equipment to ship _____ weeks after receipt of order.
 - b. Proposed shipping date is based on receiving a written purchase order as well as a signed copy of our proposal no later than _____.
 - c. If changes and/or modifications are made to the equipment and/or equipment layout by the customer during the course of the project, the change in equipment price and ship date shall be mutually agreed upon, in writing, by the customer and FABTEC, INC. within five (5) working days (facsimile transmission acceptable).
 - d. Equipment proposed to be shipped F.O.B. factory, collect. All prepaid shipments will be invoiced at cost plus 10% surcharge.

B. WARRANTY – FABTEC, INC. warrants for a period of 12 months or 2,080 operating hours, whichever is first, that the equipment furnished shall be free of defects in materials or workmanship if properly used and maintained. FABTEC, INC. liability is limited to repair or replacement of nonconforming equipment at its option. F.O.B. point of manufacture and in no event shall be liable for any direct, indirect or consequential damages of any kind which occur during or as a result of installation and/or operation of the equipment. There is no implied or express warranty of merchantability beyond that specifically described in this proposal.

C. RISK OF LOSS – Purchaser assumes all risk of loss of damages and destruction after the materials and equipment are free on board at shipping point or upon arrival at Purchaser's installation site if shipping terms are F.O.B. destination. After risk of loss has passed to purchaser, purchaser will make payment per the contract terms regardless of any loss or damage to the material or equipment.

D. TERMINATION AND HOLDING CHARGES – Purchaser may not cancel order without prior written approval of FABTEC, INC. Cancellation charges will be based on material, labor and engineering work started or completed at time of cancellation with a minimum charge of 15% of the total contract value. Any order placed on hold will be charged at 2% per day; Charges to begin date of hold and ending date of release.

E. TERMS OF PROPOSAL

1. In the event this proposal is not under contract within 30 days of issuance, then the price, schedule and other portions are subject to change by the discretion of FABTEC, INC.
2. Terms are 40% due upon issuance of purchase order with 50% due prior to shipment and 10% due Net days from delivery. FABTEC, INC. requires a written purchase order within five (5) working days after receipt of verbal purchase order.

F. CONTRACT DOCUMENTS – This proposal consists of the following additional documents which shall incorporate herein by this reference as if fully set forth herein:

FABTEC, INC.

32632 W. Santa Cruz Ave.
Maricopa, AZ 85138

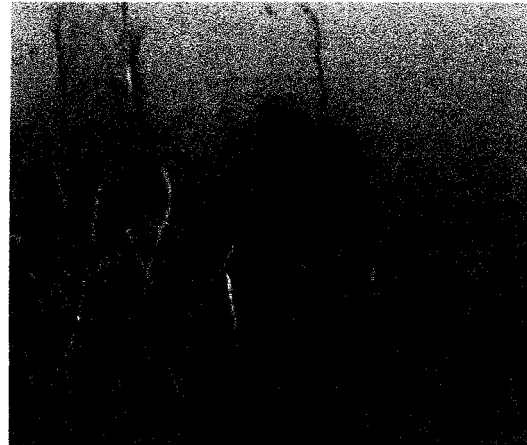
TERMS AND CONDITIONS

(PAGE 4 OF 4)

- G. INSTALLATION BY FABTEC, INC. - Purchaser agrees to:
- a. Prepare the work site to permit installation and operation of any equipment. Take responsibility for structural strength of and any required alteration to the building including removal of obstructions.
 - b. Provide necessary access roads, dock area suitable for receiving and unloading the equipment, secure dry convenient storage space for equipment, tools and materials used on the site, and make available any elevation crane or fork lift use for FABTEC, INC. during the installation.
 - c. Maintain the work site in a watertight condition and free of debris or obstructions other than caused by FABTEC, INC.
 - d. Prior to the scheduled start of installation, obtain all necessary local, state and federal permits for license.
 - e. Provide suitable electric current, lighting, compressed air, water and heat as may be required for installation, test and operation of the equipment.
 - f. Install all electrical wiring, conduit, controls, air piping and devices (whether furnished by FABTEC, INC. or Purchaser) required for operation of the equipment (except as specifically provided for by FABTEC, INC.)
 - g. Provide full service/maintenance of the equipment commencing with operation of the equipment or any part thereof.
- H. INSTALLATION BY PURCHASER - When the equipment is installed, purchaser will provide the required installation labor and all supplies. Purchaser will adjust supports, cut standard length conveyor bed sections, belts, conduits and the like to suit the installation and assume responsibility for any improper installation, adjustments, operation, maintenance, repairs or alterations by person other than FABTEC, INC.
- I. CHANGE AND DELAYS - If purchaser or its agents or other contractors cause changes, delays or interruptions of the continuous scheduled progress of work, Purchaser will excuse the delay and reimburse FABTEC, INC. for any additional expense which can be established as resulting from such conditions.
- J. ASSIGNMENT - It is agreed that Purchaser shall not delegate the performance of any obligation there under or assign any rights arising under this proposal to any third person without the prior written consent of FABTEC, INC.

The pictures on Pg. 9 show the base of the existing 200,000 gallon above-ground storage reservoir located at Water Plant No.1. It is obvious that rusting and corrosion are prevalent on the exterior of the tank. This implies that the interior is in worse condition. To temporarily remedy the rusted areas, the water operator has welded steel plates to the tank where rusting and leaks were detected. This condition compromises the tank's structural integrity and increases the likelihood of tank failure. Again, this tank is the only storage structure in the water system. Therefore, the customers are on the brink of losing their potable water supply. To ensure that the customers have a safe and reliable water supply the deteriorating tank should be fixed immediately. Some options to accomplish this include but are not limited to the following:

- Provide a new water storage structure at Water Plant No.1
- Rehabilitate Water Plant No. 2 so that it is in compliance with ADEQ and bring it back online
- Abandon both water plants and replace them with a new water plant



The majority of the pipe network is made of ACP. Asbestos cement pipe is no longer used for water supply in the U.S. due to danger of asbestos exposure during production, installation and maintenance of these pipes. Historically, this pipe has a service life of 50 years. Pipe aging beyond its service life increases the risk of pipe failure including leaks, breaks, cracking, and joint separation. Consequently, the reliability of supplying water to its customers decreases. To ensure that the water supply is safe and reliable it is recommended that a preventive pipe replacement plan be implemented over the course of 5 years. This equates to approximately 3,000 linear feet of pipe replacement annually. Due to the health hazards that may be encountered when handling ACP, it is recommended that it be abandoned-in-place.

The age of the water distribution system is causing the infrastructure to deteriorate. Failure is likely to occur at any moment which will cause unpredictable consequences to

Attachment C (2 pages)



D.N.A. INC.
CIVIL ENGINEERING
LAND SURVEYING

DAVID J. NYKORCHUK, R.L.S.
President
WILLIAM E. COLLINGS, P.E., R.L.S.
Vice-President

August 18, 2011

Via E-Mail: happyholmes904@yahoo.com

Mr. Hank Holmes, MD
President
Picacho Water Improvement Corporation
P.O. Box 44
Picacho, AZ85421

REF: ADOT/Water System Issue

Dear Mr. Holmes:

D.N.A. Inc. Civil Engineering and Land Surveying, appreciates the opportunity to assist you in resolving the intransient position that ADOT has taken with respect to mitigating the adverse impact of the proposed freeway re-alignment on the Water Company's financial and operational viability. Based on our conversations with you and our onsite meeting with Ed Kile, your system operator, we propose to provide the following scope of services.

1. Review the reference information furnished to date together with any additional supplemental information which may be forthcoming.
2. Discuss aspects of the situation with you, your water company representatives and your attorneys.
3. Accompany Mr. Kile to a meeting with ADOT project team members for the purpose of reviewing their current proposal for mitigating the freeway relocations adverse impacts on the Water Company and discussing ongoing concerns that the proposed freeway improvements will have with respect to the viability of the Water Company and their customers.
4. Confer with you and your representatives regarding the issues addressed at the ADOT meeting together with resolutions, if any, as to the Water Company concerns.

We propose to provide the aforementioned scope of services for a fixed fee of \$1,250. Should additional services be requested following completion of the above activities they may be provided either on a time and materials basis per the attached Schedule of Fees or through a supplemental proposal.

We look forward to working with you on this ADOT issue. Should you have any question with regard to the scope of services or related fee please do not hesitate to contact us. If this proposal meets with your satisfaction please indicate your acceptance by signing on the space provided below and returning a copy to us.

Sincerely,

William E. Collings
William E. Collings, P.E., R.L.S.
Vice President

Accepted By:

Henry W. Adlan
Pres. PWIC

Date

8/28/2011

340 East Willetta Street
314 East 8th Street

Phoenix, Arizona 85004
Casa Grande, Arizona 85222

(602) 271-9911
(520) 836-5501
FAX (602) 271-9985



D.N.A. INC.
CIVIL ENGINEERING
LAND SURVEYING

DAVID J. NYKORCHUK, R.L.S.
President
WILLIAM E. COLLINGS, P.E., R.L.S.
Vice-President

SCHEDULE OF FEES - MAY, 2006

Principal	\$125.00 HR
Senior Design Engineer	\$ 95.00 HR
Professional Engineer	\$ 85.00 HR
Designer	\$ 75.00 HR
Draftsman	\$ 60.00 HR
3 Man Field Crew	\$175.00 HR
Field Inspector	\$ 95.00 HR
Computer Time	\$ 75.00 HR
Clerical	\$ 50.00 HR

All prints supplied at cost plus 15%.

All filing fees, plan check fees, bonds, permits, etc. to be paid by Client. Any filing fees, plan check fees, bonds, permits, etc. paid by Engineer will be invoiced to the Client at cost plus 15%.

Outside Consultants - Cost plus 15%.

Field staking materials and special equipment at direct cost, unless otherwise stated.

Unpaid amounts will be charged interest at a rate of 1.5% per month (18% per year) beginning 30 days after the date of invoice.

D.N.A. INC.

By: _____

Date: _____

CLIENT SIGNATURE

By: Henry A. Adams - President - Picacho Water
Date: _____ Improvement Corp

Attachment D (7 pages)

4/1/2012

ACCOUNTING OF ADOT FINANCIAL IMPACT DURING DEMOLITION EXPENSES INCURRED THROUGH 4/1/2012

(See Invoices)

1. PWIC Operator Expenses @ \$75.00/ hour (Discounted)
2. Contractor Expenses for Mainline breaks with rates included.

Total:

\$4800.00

320.00

325.00

3290.30

5000.00

3162.60

\$16,897.90 Total

To: Picacho Water Improvement Corporation
6240 E Monitor Street
Picacho, AZ 85141

From: Ed Kile
P.O. Box 61
Eloy, AZ 85131

Date: 3/16/12

Subject: Invoice for services due to ADOT impact

12/5/11 – Line Location	4 hours
12/11/11- Line Location	3 hours
12/20/11-Main Line Break	8 hours
1/2/12-Line Location	3 hours
1/3/12 - 2"Line Break	5 hours
1/6/12-8"Line Break	8 hours
2/8/12-Met with Locator	4 hours
2/19/12 Met with Dan Padilla	5 hours

Total Hours – 64 @ \$75.00 per hour

Total Due \$4,800.00

W. KELE
PO Box 111
PICACHO, AZ 85741

356572

ORDER IN	customer's order no.		phone	date 1-10-12		
	name PICACHO WATER INC					
	address					
	city, state, zip					
	sold by		cash <input type="checkbox"/> c.o.d. <input type="checkbox"/>	charge <input type="checkbox"/> on acct. <input type="checkbox"/>	shipping information	
quantity	description			price	amount	
1	4	HOURS ON 12-20 11 LABOR				
2		REPAIR 8" MAIN.				
3						
4	8	HOURS ON 1-3-12 LABOR				
5		REPAIR 2" MAIN				
6						
7	4	HOURS ON 1-6-12 LABOR				
8		REPAIR 8" MAIN.				
9						
10		Total				
11		320.00				
12		CL # 905				
13						
14						
received by						

adams

keep this slip for reference

DC5808UV

Ilerr
(20) 251-2098

Steve
(520) 229-7058

CONTRACTORS INVOICE

Vaquero Excavating & Trucking L.L.C.
Trenching and Material Hauling

2006

3611 West Silverbell Road
a, Arizona

WORK PERFORMED AT:

O.C. 208979

Picacho Water Imp.

Camino Adelante
(Picacho)

DATE

12-20-11

YOUR WORK ORDER NO.

OUR BID NO.

DESCRIPTION OF WORK PERFORMED	PRICE	AMOUNT
12-16-11 Dig for 8" water main + repair. Backfill with native material.		
3 hrs. @	75 ⁰⁰	\$225 ⁰⁰
Trip Charge		\$100 ⁰⁰
With 894		
Total:		\$325 ⁰⁰

PRICE

AMOUNT

12-16-11 Dig for 8" water main + repair. Backfill with native material.

3 hrs. @

75⁰⁰ \$225⁰⁰

Trip Charge

\$100⁰⁰

With
894

Total:

\$325⁰⁰

I Material is guaranteed to be as specified, and the above work was performed in accordance with the drawings and specifications provided for the above work, and was completed in a substantial workmanlike manner for the agreed sum of

Three hundred twenty five & 00/100 Dollars (\$ 325⁰⁰)

is is a ☐ Partial ☐ Full invoice due and payable by:

12
Month

26
Day

2011
Year

CONTRACTORS INVOICE

Allen
(520) 251-2098

Steve
(520) 229-7058

CONTRACTORS INVOICE

Vaquero Excavating & Trucking L.L.C. Trenching and Material Hauling

2007

16611 West Silverbell Road
Tucson, Arizona
53
H.O.C. 208979

WORK PERFORMED AT:

Picacho Motel

TO: Picacho Water Imp.

DATE: 1-9-12 YOUR WORK ORDER NO. OUR BID NO.

DESCRIPTION OF WORK PERFORMED

PRICE

AMOUNT

1-6-12 Dig up 8" CA water main
where 4" PVC tied into 8" remove
valve that was leaking. Replace
main with 8" C-900 and 2 8"
Flex couplings.

Material

\$590.30

Labor + equipment: 9hrs @

\$300⁰⁰ hr \$2,700.00

Total:

\$3,290.30

All Material is guaranteed to be as specified, and the above work was performed in accordance with the drawings and specifications provided for the above work, and was completed in a substantial workmanlike manner for the agreed sum of

Three thousand two hundred ninety & 30/100 Dollars (\$ 3,290.30)

This is a ☐ Partial ☐ Full invoice due and payable by:

Month

Day

Year

CONTRACTORS INVOICE

CONTRACTORS INVOICE

Vaquero Excavating & Trucking L.L.C.
Trenching and Material Hauling

2009

611 West Silverbell Road
Flagstaff, Arizona

WORK PERFORMED AT:

O.C. 208979

° Picacho Water Temp

Picacho Water
Camino Adelante

DATE 9-12 to 1-13-17

YOUR WORK ORDER NO.

OUR BID NO.

DESCRIPTION OF WORK PERFORMED		PRICE	AMOUNT
-9-12	Monitor Demo Crew, remove meters 10hrs @	\$100 ⁰⁰	\$1,000.00
-10-12	Monitor Demo Crew, look for valve by Post Office	\$100 ⁰⁰	\$1,000.00
-11-12	Monitor Demo Crew, work valves 10hrs @	\$100 ⁰⁰	\$1,000.00
-12-12	Monitor Demo Crew 10 hrs @	\$100 ⁰⁰	\$1,000.00
-13-12	Monitor Demo Crew 10hrs @	\$100 ⁰⁰	\$1,000.00
ck # 911			
Total :			\$5,000 ⁰⁰

I Material is guaranteed to be as specified, and the above work was performed in accordance with the drawings and specifications provided for the above work, and was completed in a substantial workmanlike manner for the agreed sum of _____

Five thousand & 00/100 _____ Dollars (\$ 5,000 ⁰⁰/₁₀₀)

This is a ☒ Partial ☐ Full invoice due and payable by:

Month

Day

Year

CONTRACTORS INVOICE

Jlen
(520) 251-2098

Steve
(520) 229-7058

CONTRACTORS INVOICE

Vaquero Excavating & Trucking L.L.C.
Trenching and Material Hauling

2010

6811 West Silverbell Road
Tucson, Arizona
I.O.C. 208979

WORK PERFORMED AT:

TO: Picacho Water Temp.

18535 S. Picacho Hwy. (Garcia)
7120 E. Picacho Blvd.

DATE <u>1-18-12</u>	YOUR WORK ORDER NO.	OUR BID NO.
------------------------	---------------------	-------------

DESCRIPTION OF WORK PERFORMED	PRICE	AMOUNT
<u>1-17-12 18535 S. Picacho Hwy. (Garcia)</u> <u>Install new 1" service and Tap 8" main.</u>		
<u>1-18-12 7120 E. Picacho Blvd. Replace approx. 400ft.</u> <u>of 1 1/2 steel service with 1 1/2 PVC.</u>		
<u>Material :</u>		<u>\$462.60</u>
<u>2 man Crew with Backhoe</u>	<u>\$1500/hr.</u>	
	<u>18 hrs.</u>	<u>\$2,700</u>
<u>OK #911</u>		
<u>Total :</u>		<u>\$3,162.60</u>

All Material is guaranteed to be as specified, and the above work was performed in accordance with the drawings and specifications provided for the above work, and was completed in a substantial workmanlike manner for the agreed sum of

Three thousand one hundred sixty two & 60/100 Dollars (\$ 3,162.60)

This is a ☐ Partial ☐ Full invoice due and payable by: 1 Month 27 Day 12 Year

CONTRACTORS INVOICE

Attachment E - (5 pages)



Arizona Department of Transportation
Intermodal Transportation Division

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janice K. Brewer
Governor

John S. Halikowski
Director

January 24, 2011

Floyd Roehrich Jr.
State Engineer

Mr. Hank Holmes
P.O. Box 904
Jefferson, OR 97352

RE: Project: NH-010-D(205)A / 010 PN 210 H769602R
Section: I-10, I-10/SR87 TI
Subject: Picacho Water Improvement Corp. Mitigation

Dear Mr. Holmes,

The ADOT has evaluated the PWIC system and is committed to partnering with you to help the community preserve its water supply. This project is funded completely by the Federal Highway Administration and ADOT will assist financially with the PWIC mitigation using federal funds but must comply with federal regulations regarding how the monies are used.

The evaluation consisted of reviewing the analysis done by Ed Geiser and Tristan Woster of EEC, Inc. dated March 31, 2009. ADOT agrees with implementing some, but not all, of the components mentioned in their analysis. As you are well aware, many of the issues facing PWIC are simply the result of the facilities reaching the end of their functional life and are not due to ADOT's highway project.

ADOT will sleeve and pipe I-10 in two areas for water from Water Plant # 1 to go south of the highway. ADOT will remove any asbestos containing pipe within new or existing r/w. ADOT will pay to bring new service lines to the edge of the r/w but from this point final hook-up to any structure must be done by PWIC. ADOT will re-imburse the contractor directly for the pipe hook-up and this amount will be based on the lowest bid of three qualified contractors. Other repairs or replacements that need to be done per EEC's analysis will need to be addressed by PWIC.

If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Pete Mayne", is written over a horizontal line.

Pete Mayne

Right of Way Agent

Arizona Department of Transportation

205 South 17th Avenue, MD 612E

Phoenix, AZ 85007-3212

ph: (602) 712-8738, fax: (602) 712-3051, e-mail: pmayne@azdot.gov



Arizona Department of Transportation
Intermodal Transportation Division

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janice K. Brewer
Governor

John S. Halikowski
Director

Jennifer Toth
State Engineer

February 3, 2012

Mr. Hank Holmes, President
Picacho Water Improvement Corporation
P.O. Box 904
Jefferson, Oregon 97352

Re: Picacho Water Improvement Corporation, Picacho, Arizona

Dear Mr. Holmes:

I am responding to your letter (sent via e-mail) dated January 23, 2012. Your letter was very helpful in my understanding of your position in this matter.

In order to obtain input regarding impact of the Interstate-10 improvement project on the Picacho Water Improvement Corporation (PWIC) system, on January 23, 2012, I assembled a meeting of representatives from the various sections within the Arizona Department of Transportation (ADOT) that are involved with this project. A member of the Office of the State Attorney General was also at this meeting as were representatives from the Federal Highway Administration.

Issues raised in your letter contributed substantially to the discussion at this meeting and the insight provided by the various representatives allowed for a thorough analysis of these issues. The project Environmental Assessment, federal and state legal requirements, mitigation measures, and acquisition and demolition processes were discussed at length.

Following is a summary of the discussion:

- Project Environmental Assessment—Both ADOT and FHWA reviewed the EA and neither have found a flaw with the EA. If new information comes in, ADOT is willing to review and take action if needed, but at this time there is nothing in the process that ADOT or FHWA have issue with.
- State Legal Requirements – The ADOT Right of Way Group and the Office of the Arizona Attorney General have reviewed the project and have determined that ADOT has priority rights. The utilities owned by the water district are in under permit and as such are required to relocate if they are in conflict.
- Mitigation Measures – It is my understanding that ADOT has agreed to replace, at ADOT's cost, sections of the water lines which will need to be relocated as a result of the project and with-in the right of way. The cost of this work is approx 500K. This work would be done at the time of construction.

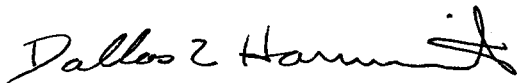
- Acquisition and Demolition Processes – ADOT is completing the first of three demo projects. In Raul Torres's January 23, 2012 e-mail, questions are answered as to who to contact if there is a break in the line and contact info is given in case of an emergency. As stated in the e-mail, if the leak is caused as a direct result of work conducted by ADOT, we will respond as we are contacted.

The above discussion resulted in a consensus that ADOT is not in a position to consider payment of compensation to PWIC or to provide mitigation measures beyond those already incorporated into the construction project.

Having been involved with the Interstate-10 Picacho Project for a number of years, you are certainly aware of ADOT's need to move ahead with this important highway improvement. We must, therefore, continue to acquire the right of way needed for construction and to relocate those individuals displaced by the project. Demolition of improvements on the acquired properties will proceed per established guidelines.

We encourage your continued involvement and input throughout these activities as well as during the phases of the project. With that being said, ADOT will be calling to schedule a meeting between PWIC, ADOT Right of Way Group and myself to discuss next steps. ADOT is willing to coordinate with PWIC in the effort to minimize any inconvenience, either to PWIC or to the residents of Picacho.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dallas Hammit", with a stylized flourish at the end.

Dallas Hammit
Deputy State Engineer, Development

From: Peter Mayne <PMayne@azdot.gov>
To: hank holmes <happyholmes904@yahoo.com>
Cc: Bill Collings <dnacivil@aol.com>; Arlene Kile <arleedki5@yahoo.com>; Dallas Hammit <DHammit@azdot.gov>; Brian Rockwell <BRockwell@azdot.gov>; Ken Davis <ken.davis@dot.gov>; Stephen Wilson <smwilson@azdot.gov>; Nancy Scott <niscott@azcc.gov>; "lpatton@dot.gov" <lpatton@dot.gov>
Sent: Tuesday, March 6, 2012 8:10 AM
Subject: RE: Picacho Water Improvement Corp. (PWIC)

Hank,

As we discussed over the phone last week, here's a response to the four areas you requested.

1. Proof of (Prior) Rights.

If the Utility Co. is claiming prior rights, it has always been incumbent on the Utility Co. to provide proof of the prior rights claim by submitting easement documents or other similar documents providing evidence of their claim. To date, no such documents have been submitted to ADOT and we can only surmise no such documents exist. Also, ADOT has offered to construct a new loop system with new pipe to ensure a water source for your remaining customers, all at ADOT expense. This is very similar to ADOT paying a prior rights claim and is to your benefit. The loop system requires some cooperation from PWIC, but the cooperation has been repeatedly withheld. Additional payment based on a Prior Rights Claim is denied.

2. Clarification of the Mitigation Language.

The mitigation language in the environmental document says "During final design, the Arizona Department of Transportation will coordinate with the Picacho Water Improvement Corporation to mitigate the impacts and ensure a continued source of water to the community of Picacho with minimal disruption of the water supply during construction." The language seems pretty clear and the loop system proposed is in line with the mitigation measures. The environmental document is required for the project and is for use by the Department. Input from the public is desired, solicited and helps formulate any mitigation measures that may be needed, but the ultimate decision on what the appropriate mitigation measures are rests with ADOT.

3. Franchise.

ADOT has reviewed a franchise agreement between Picacho Water Improvement Corp. and Pinal County from 1987 that expired after twenty-five years. The franchise agreement does not affect our highway project. Also checked with the same person at Pinal County that you contacted, for copies of the recent franchise agreement that you said was renewed in 2006. The copies sent were for Picacho Water Company, an entirely different entity than PWIC. No evidence has been submitted to ADOT that the franchise agreement for PWIC was indeed renewed. If a copy of the renewed franchise agreement is available, ADOT would like to review it.

4. Expertise of Small Water Systems.

ADOT is in the process of hiring a small systems expert now. We have previously attempted to utilize your expert rather than hiring a separate one, thus ensuring that PWIC had ample access and input into the design and implementation of the mitigation measure, but again cooperation was repeatedly withheld.

Also, you mentioned having ADOT perform an ALTA survey, but a survey is unnecessary. ADOT tried to get PWIC permission, by a Temporary Entry document, to ascertain pipe locations

and joint types, but again, permission was denied. ADOT is moving forward with the mitigations measure (loop system) that has been previously discussed and unless additional evidence is presented by PWIC, will not pay for anything other than the loop system.

If you would like to meet to discuss this or if you have any questions or comments, please let me know.

Cordially,
Pete Mayne
602-712-8738.

Attachment F (2pg) PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$24,667.41	02-04-2011	02-04-2013	15525174146	4A / 280		STRT	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item.
Any item above containing ***** has been omitted due to text length limitations.

Borrower: HENRY H. HOLMES
P.O. BOX 904
JEFFERSON, OR 97352

Lender: GREAT WESTERN BANK
Casa Grande Main Office
1300 E. Florence Blvd.
P.O. Box 12066
Casa Grande, AZ 85130-2066

Principal Amount: \$24,667.41

Date of Note: February 4, 2011

PROMISE TO PAY. HENRY H. HOLMES ("Borrower") promises to pay to GREAT WESTERN BANK ("Lender"), or order, in lawful money of the United States of America, the principal amount of Twenty-four Thousand Six Hundred Sixty-seven & 41/100 Dollars (\$24,667.41), together with interest on the unpaid principal balance from February 4, 2011, calculated as described in the "INTEREST CALCULATION METHOD" paragraph using an interest rate of 7.750% per annum based on a year of 360 days, until paid in full. The interest rate may change under the terms and conditions of the "INTEREST AFTER DEFAULT" section.

PAYMENT. Borrower will pay this loan in 23 regular payments of \$309.00 each and one irregular last payment estimated at \$21,160.10. Borrower's first payment is due March 4, 2011, and all subsequent payments are due on the same day of each month after that. Borrower's final payment will be due on February 4, 2013, and will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; and then to any unpaid collection costs. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

EFFECTIVE RATE. Borrower agrees to an effective rate of interest that is the rate specified in this Note plus any additional rate resulting from any other charges in the nature of interest paid or to be paid in connection with this Note.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: GREAT WESTERN BANK, Casa Grande Main Office, 1300 E. Florence Blvd., P.O. Box 12066, Casa Grande, AZ 85130-2066.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 2.000% of the regularly scheduled payment or \$25.00, whichever is greater.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, the interest rate on this Note shall be increased to 18.000% per annum based on a year of 360 days. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the related documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The death of Borrower or the dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Foreclosure Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or foreclosure proceeding and if Borrower gives Lender written notice of the creditor or foreclosure proceeding and deposits with Lender monies or a surety bond for the creditor or foreclosure proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured if Borrower, after Lender sends written notice to Borrower demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees, expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. However, Borrower will only pay attorneys' fees of an attorney not Lender's salaried employee, to whom the matter is referred after Borrower's default. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Arizona without regard to its conflicts of law provisions. This Note has been accepted by Lender in the State of Arizona.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Pinal County, State of Arizona.

**PROMISSORY NOTE
(Continued)**

Loan No: 15525174146

Page 2

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the debt against any and all such accounts.

COLLATERAL. Borrower acknowledges this Note is secured by UNSECURED.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

NOTIFY US OF INACCURATE INFORMATION WE REPORT TO CONSUMER REPORTING AGENCIES. Borrower may notify Lender if Lender reports any inaccurate information about Borrower's account(s) to a consumer reporting agency. Borrower's written notice describing the specific inaccuracy(ies) should be sent to Lender at the following address: GREAT WESTERN BANK Loan Servicing P. O. BOX 12066 CASA GRANDE, AZ 85130-2066.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

X COPY
HENRY H. HOLMES

DISBURSEMENT REQUEST AND AUTHORIZATION

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$24,667.41	02-04-2011	02-04-2013	15525174146	4A / 280		STBT	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item.
Any item above containing "****" has been omitted due to text length limitations.

Borrower: HENRY H. HOLMES
P.O. BOX 904
JEFFERSON, OR 97352

Lender: GREAT WESTERN BANK
Casa Grande Main Office
1300 E. Florence Blvd.
P.O. Box 12066
Casa Grande, AZ 85130-2066

LOAN TYPE. This is a Fixed Rate (7.750%) Nondisclosable Loan to an individual for \$24,667.41 due on February 4, 2013.

PRIMARY PURPOSE OF LOAN. The primary purpose of this loan is for:

- ☐ Personal, Family, or Household Purposes or Personal Investment.
☒ Business (Including Real Estate Investment).

SPECIFIC PURPOSE. The specific purpose of this loan is: RENEWAL OF PICACHO WATER IMPROVEMENT CORP LOAN.

DISBURSEMENT INSTRUCTIONS. Borrower understands that no loan proceeds will be disbursed until all of Lender's conditions for making the loan have been satisfied. Please disburse the loan proceeds of \$24,667.41 as follows:

Amount paid on Borrower's account:	\$24,337.41
\$24,337.41 Payment on Loan # 800617002	
Other Charges Financed:	\$30.00
\$30.00 FED EX FEE	
Total Financed Prepaid Finance Charges:	\$300.00
\$150.00 LOAN FEE	
\$150.00 DOC FEE	
Note Principal:	\$24,667.41

FINANCIAL CONDITION. BY SIGNING THIS AUTHORIZATION, BORROWER REPRESENTS AND WARRANTS TO LENDER THAT THE INFORMATION PROVIDED ABOVE IS TRUE AND CORRECT AND THAT THERE HAS BEEN NO MATERIAL ADVERSE CHANGE IN BORROWER'S FINANCIAL CONDITION AS DISCLOSED IN BORROWER'S MOST RECENT FINANCIAL STATEMENT TO LENDER. THIS AUTHORIZATION IS DATED FEBRUARY 4, 2011.

BORROWER:

X 
HENRY H. HOLMES



Great Western BankSM

Making Life Great

Member FDIC

January 25, 2011

Henry H. Holmes

1700 Geary St S E

Albany, Oregon, 97322

Hank,

Enclosed is the renewal loan stretching the maturity date out 24 months. Your payments will remain the same at \$309.00 per month and the interest rate remains unchanged. The loan fees involved have been added to the loan so there is no need to pay those at this time. Please sign in the areas marked and have your signatures notarized. Please return through Fed-EX. If you have any questions, please contact me.

Sincerely,

Terry Strain

VP Business Banking MGR

520-876-2970

Terry.strain@greatwesternbank.com